

Price-based Acquisition

Briefing to:

DCMA Conference

Presented by:

Mr. William Stussie

Deputy Assistant Secretary of the

Navy (Air) Programs

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The Team

Study Chair

Bill Stussie - Deputy Assistant Secretary of the Navy (Air) Programs

Focus Group Leaders

Group #1 - Acquisition Strategies

Terry Little - Air Force

Jan Young - Navy

Group #2 - Pre-award

Sue Hunter - Air Force

Dina Hyde - Navy

Group #3 - Post Award

Dave Ricci - DCMC

Team Members

DoDIG

CODSIA

Navy

DLA

BMDO

OSD

FAA

Air Force

DCAA

OFPP

NASA

Army

DCMC

PBA Objectives

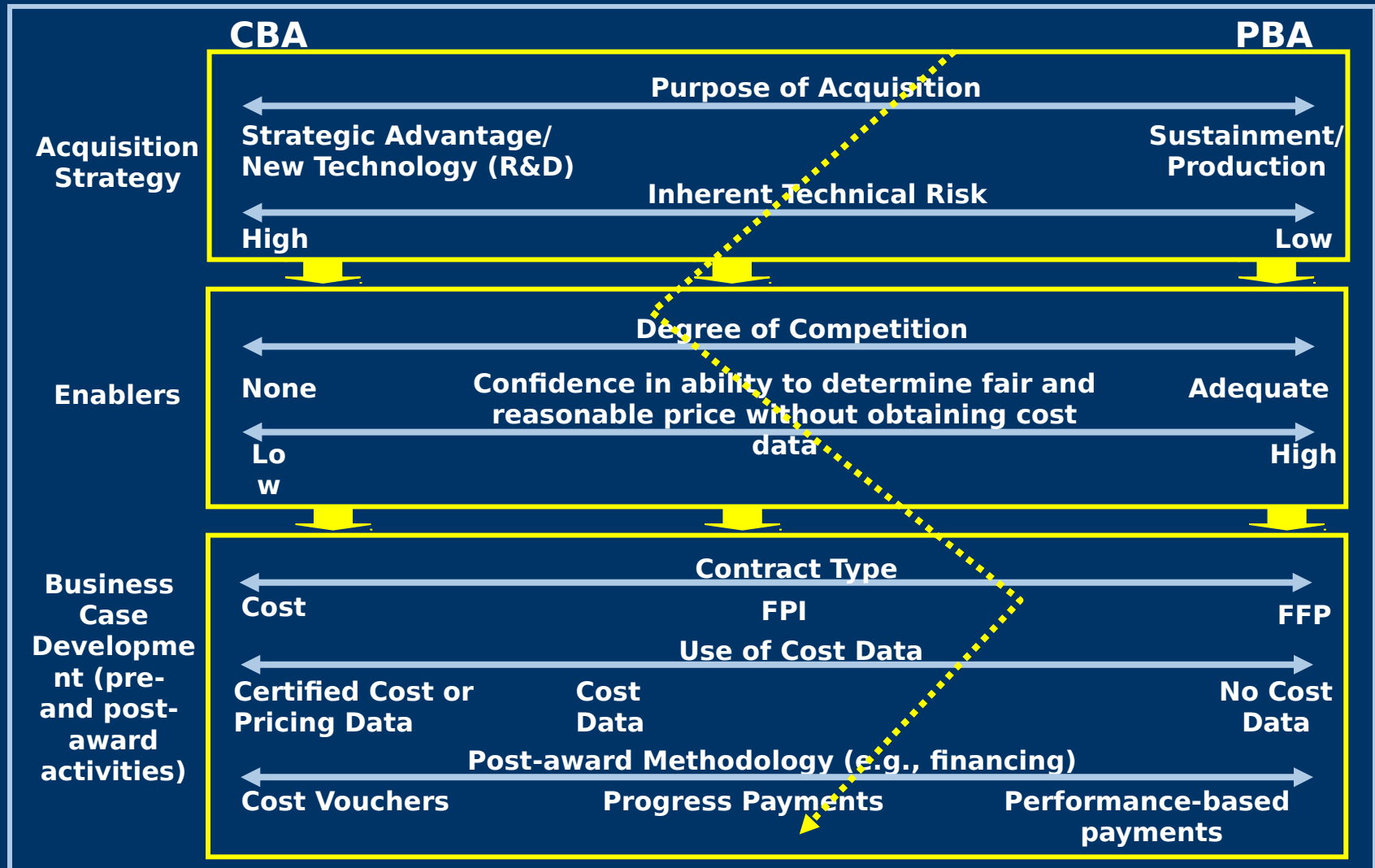
- **Access to commercial technology**
- **Better contract prices**
 - Civil military integration
 - Increased efficiency
- **Reduce government infrastructure**

While maintaining the public t

Overarching Conclusions

- **Without training and top-level active support, any significant initiative to expand PBA will fail**
- **Risk and adaptability to PBA hinges as much on how we buy as they do on what we buy**
- **PBA can exist in either competitive or non-competitive environment**
- **Expanding PBA transcends contract type and use of cost data**
- **There is a continuum between price-based and cost-based acquisition**

The Continuum



Government/ Industry's Perception

- Allocability
- Allowability
- Reasonableness

*“COST-BASED SYSTEM...
TRYING TO TURN THE TABLE”*

- Be A Smart Buyer

Definition of PBA

Price-based acquisition is a way for DoD to buy goods and services that does not rely primarily on a supplier providing

Price-based acquisition (PBA) is a way of doing business that begins with identification of a need and flows through post-award activities. The decision to use a price-based approach is driven by choices made during the Requirements Definition process, is heavily dependent on risk mitigation and the chosen acquisition strategy, and is aided by competition or alternatives. In its purest form, PBA results in a firm-fixed-price (or fixed-price with performance incentives) contract and a fair

Our Approach to Linking Recommendations

- **Changing the Risk Equation**
 - Acquisition Strategies
 - Price as an ORD Requirement
 - Market Research Center of Excellence
 - Maintaining Competitive Incentives
 - Selecting the Source
- **Establishing the Business Arrangements**
 - Truth-in-Negotiations Act
 - Cost Data in FFP Competitive Contracts
 - Pricing Methodologies
 - Contract Types

Our Approach to Linking Recommendations

(Continued)

- **Sustaining the PBA Environment after Award**
 - **Financing**
 - **Contract Modifications and Changes**
 - **Value Engineering**
 - **Program Progress**
 - **Government Furnished Property**
 - **Waivers and Deviations**
 - **Wage Determinations**
 - **Cancellation Charges for Multi-year Procurements**
 - **Claims**

Our Approach to Linking Recommendations

(Continued)

- **Bringing About Change**
 - The Catalysts
 - Commercial Firms, Non-commercial Products
 - Metrics - Measuring Success
- **Unique Markets**
 - PBA in a Sole Source Environment
 - PBA and Subcontracts

Changing the Risk Equation Critical to Successful Expansion of PBA

Recommendations focus on:

- **Dispersing risk over smaller, manageable segments of the total program**
 - Allowing programs to move forward even when adequate budget or technology is not available
 - Discouraging unaffordable, high-risk programs
- **Understanding the market**
- **Competing ideas (i.e., Mission Needs Statement)**
 - Focus on capability
 - Increasing user involvement in acquisition process
- **Using relevant past performance as a predictor of future performance**

Changing the Risk Equation Recommendations

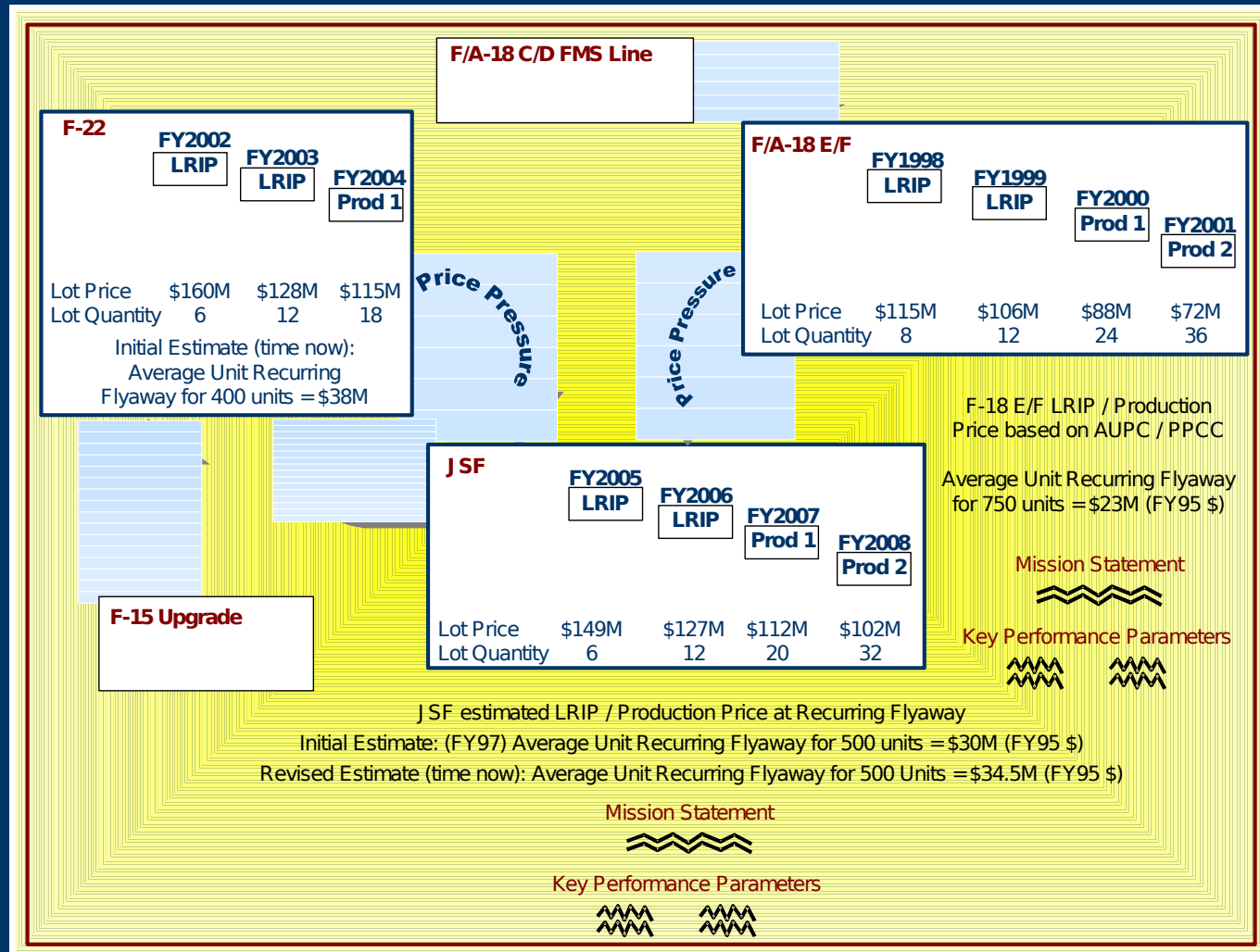
- **For every system development or other acquisition, where risk seems to warrant a cost reimbursable contract, maximum consideration should be given to using an evolutionary and / or incremental developmental strategy**
- **Require that every user Operational Requirements Document include a dollar amount stating what the user is willing to pay to acquire the capability described in the ORD**

Changing the Risk Equation Recommendations

(Continued)

- **Establish a DoD Overarching IPT to:**
 - Form small DoD COE charged with advocating and integrating market research across the Department
 - Determine how to assess “surveillance” function
- **For all sole source major system acquisitions, either a head-to-head or dissimilar competitive alternative should be considered through the life of the program**

Changing the Risk Equation (Dissimilar Competition)



Changing the Risk Equation Recommendations

(Continued)

- **Request from Congress pilot test authority to implement the multi-phase source selection process**
- **Elevate the importance of an offeror's past performance to be at least equal to the highest ranking factor in every source selection valued at greater than or equal to \$1 million unless waived by the Head of the Contracting Activity**

Establishing the Business Arrangements

Recommendations focus on:

- **Streamlining processes that may lead to increased use of PBA without significantly increasing program execution risk (e.g., TINA)**
- **Ensuring availability of tools (e.g., contract types, pricing methods, procurement pricing commitment curves)**
- **Providing training that uses “real” situations**
- **Shifting the mindset away from cost-based techniques (e.g., value based pricing, unpriced delivery orders)**

Working at a price level means less information will be available to decision-makers, which in turn means potentially accepting more risk (e.g., more unknowns)

Establishing the Business Arrangements Recommendations

- **Streamline the TINA waiver process to allow for approval at a lower level (i.e., Business Clearance Approval Authority)**
- **Raise the TINA threshold from \$500K to \$1M**
- **Establish a definition of fair and reasonable price that highlights the situational aspects that may lead to a range of prices**
- **Implement training on price-based pricing techniques**
- **Use value-based pricing to determine price reasonableness, whenever possible**

Establishing the Business Arrangements Recommendations

(Continued)

- **Make Fixed-price, Variable Outcome the preferred approach for all Science and Technology (S&T) and risk reduction contracts, and other contracts where a range of plausible outcomes is possible and acceptable**
- **Establish two pilot programs to use share-in-savings contracts.**
 - **Strong preference should be given to programs that plan to use share-in-savings contracts to achieve significant TOC reductions**
- **Amend statutory coverage on commercial contracts to allow for time and material line items**

Sustaining the Environment

A Formidable Challenge

Recommendations focus on:

- **Laying the foundation early in program planning to ensure a PBA approach can be sustained throughout the program's life cycle**
- **Changing current processes so that post-award activities can be performed without obtaining cost or pricing data**

Sustaining the Environment Recommendations

- **Create a new form of financing, price-based financing,
for use on low dollar value contracts (those
priced at \$10M
or less) and larger follow-on routine purchases**
 - **Based on estimated expenditure profiles**
- **Create a new termination clause, similar to the
termination clause used in contracts for
commercial items (52.212-4), for use in smaller
contracts and partial terminations of larger
contracts (i.e., those valued at less than \$100K)**

Sustaining the Environment Recommendations

(Continued)

- **Revise the TINA waiver language to encourage granting waivers for low dollar value contract modifications, especially those made to contracts initially awarded without cost or pricing data**
- **Investigate uses for EVMS data beyond its current program management mission (e.g., financing, termination assessments, contract negotiations, source selections, ...)**

Sustaining the Environment Recommendations

(Continued)

- **When appropriate, establish a liability schedule when initially pricing the contract, that lists the changes due the supplier for DoD changes to, and delays in, furnishing property**
- **When practical, establish a deduction schedule or curve when initially pricing the contract for waiver and deviation requests**
- **Establish a policy that every ACAT I and II Program contain an Alternative Dispute Resolution (ADR) procedures clause**

Bringing About Change The Catalysts

Recommendations focus on:

- **Bringing about the desired changes, with particular emphasis on increasing the use of PBA in non-traditional areas**
 - **Policy**
 - **Training**
 - **Top-down support**
- **Measuring success - the metrics**

Bringing About Change Recommendations

- **Express a clear preference for PBA by:**
 - USD(AT&L) issuing memorandum to acquisition workforce
 - Revising DFARS
 - Requiring the discussion of PBA methods in acquisition planning documents (DFARS & DoD 5000)
- **Amend DFARS to lower the approval level for determination to use a FFP contract for R&D from OSD to Service Acquisition Executives, re-delegable not below Flag Officer / SES**

Bringing About Change Recommendations

(Continued)

- **Train acquisition teams and their industry counterparts**
 - Overview PBA training (prior to any policy changes)
 - Follow-on, “how-to” training
 - PBA module in all DAWIA acquisition and program management courses
- **Study feasibility of establishing “commercial plant” designation for “commercial firms” providing non-commercial products to the Government**
 - Designator to vary by industry vice “one-size-fits-all”

Where to Begin?

- **Defining Today's Norm**
 - First understand, then reconcile where the acquisition approach (i.e., cost vs. price) for “like” commodities differs across the Services / DoD Agencies
 - ➔ Sharing of lessons learned
 - ▮ Changing processes
- **Subcontracts**

Before and After PBA

The 1980's - Why did we fail?	Why will we succeed now?
Inappropriate application of fixed-price to high-risk	Incremental risk mitigation Cost contracts still available Maintaining competition
Contractor buy-in	Focus on total ownership cost vs instant price
Lack of trade space	CAIV/PAIV
Evolving requirement	More time up front Increased user involvement Discussions with contractor
Lack of discipline	Training (government and contractor)

Challenges

- **Getting buy-in**
 - Government acquisition workforce
 - OSD Staff
 - Industry
 - Congress
 - Coming to a common understanding of what PBA is (and is not) - it is not an absoluteSuccess of PBA is dependent on changing culture
 - Training of acquisition workforce
 - Workforce incentives
- **Complete success requires a change to the larger requirements planning process and budgeting / resource allocation process**
- **Implementation**

Where Are We Now?

- **November 99 - Report sent out for comment**
- **March/ April 00 - Comments Received**
- **Met with Deputy Under Secretary of Defense (Acq Reform)**
 - **12 May 00**
- **Scheduled to brief USD (AT&L) in June 00**
- **Focus is on getting the message out**
- **The debate continues**
 - **Is PBA equal to FFP contracts (only)?**
 - **Is the cost-based acquisition process really broken?**
 - **Is the change required? Why?**

Where Are We Now?

(Continued)

- **The Department has yet to develop a position**
- **Pursuing statutory changes likely to be impacted by the political process**
- **The Report as written is not an implementation plan**
 - **Detailed steps / processes need to be worked out after the Department establishes its position**